

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the June 5, 2002
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 10, 2002

INFORMATION:

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee meeting held in open session June 5, 2002 are submitted as Attachment 1.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
JUNE 5, 2002
OPEN SESSION
BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
George Fenimore
Paul Krasnow
Karen Russell
Jay Schenirer
Carolyn Widener
Annette Porini, representing Director of Finance, Tim Gage
Kathleen Connell, State Controller
Richard Whitmore, representing Superintendent of Public Instruction, Delaine Eastin
Ted Eliopoulos, representing State Treasurer, Philip Angelides

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Christine Solich
Louis Willhoit

STAFF PRESENT

Jack Ehnes, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Chris Waddell, Chief Counsel
Elleen Okada, Director of Investment Administration and External Relations
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham, Director of Fixed Income
Mike DiRe, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Paul Shantic, Principal Investment Officer
Glenn Hosokawa, Principal Investment Officer
Richard Rose, Principal Investment Officer
Jean Kushida Uda, Investment Officer
Hank Thomas, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Allan Emkin, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Michael Bender, McKinsey & Company
Beth Cobert, McKinsey & Company
Melissa Ma, McKinsey & Company

Mark Johnson, Milliman USA
Dorothy Moser, CTA/NEA, Retired
Michael Green, CTA
Tony Jones, CTA
Loretta Toggenburger, UTLA, Retired
Pat Geyer, CRTA
Bill Collins, CTA

A quorum being present, Chairperson Lynes called the open session meeting to order at 10:40 a.m.

I. **ANNOUNCEMENTS** (Item 2)

Chairperson Lynes announced that Item 9 and Item 11 would be considered following Item 5.

II. **APPROVAL OF MINUTES OF THE MAY 1, 2002 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Fenimore, seconded by Ms. Russell and carried to approve the minutes of the May 1, 2002, Investment Committee, Open Session as presented.

III. **REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)

Mr. Eliopoulos reported that the Subcommittee received updates on market reform issues and the workplan.

IV. **ALTERNATIVE INVESTMENTS – BOARD CONSULTANT FINALIST INTERVIEWS** (Item 5)

Mr. Desrochers reviewed the RFP process. He reported that 69 RFPs were downloaded. Eight proposals were received and passed the preliminary review. Six proposers were identified as semi-finalists following evaluation of the written proposals. Following semi-finalist interviews, two firms progressed as finalists. One of the finalists withdrew their proposal on May 9, 2002.

Mr. Desrochers introduced Mr. Bender, Ms. Cobert and Ms. Ma representing McKinsey & Company. Mr. Bender, Ms. Cobert, and Ms. Ma discussed McKinsey's experience in alternative investments and in advising institutional investors, the outlook of private equity for the institutional investor, and how McKinsey would work with CalSTRS. Questions and answers ensued.

Dr. Connell left the meeting at 11:42 a.m. Mr. Willhoit represented the State Controller.

Questions and answers continued.

Chairperson Lynes recessed the meeting at 12:10 p.m.
The meeting reconvened at 1:00 p.m.

MOTION duly made by Mr. Schenirer, seconded by Mr. Eliopoulos and carried to adopt the resolution to authorize staff to execute a contract with McKinsey & Company for Alternative Investment Consulting services upon successful negotiation of fees.

V. **FIXED INCOME - U.S. BENCHMARK RECOMMENDATION** (Item 6)

Ms. Cunningham, Mr. Shantic, and Mr. Hosokawa discussed their review of fixed income benchmarks, the role of the fixed income portfolio, the U.S. fixed income universe, fixed income benchmark alternatives and staff recommendation.

MOTION duly made by Mr. Eliopoulos, seconded by Mr. Fenimore and carried to adopt the resolution to adopt the Lehman Brothers U.S. Aggregate Index (ex-Tobacco) as the benchmark for the internally managed long-term fixed income assets.

VI. **UPDATE ON LEGISLATION** (Item 7)

Mr. Derman reported that AB 1995 (Correa) was no longer under consideration.

Mr. Derman presented the following measures for the Committee's consideration:

AB 2970 (Wayne): Auditor "Cooling-Off Period". Staff recommended the Committee adopt a support position.

MOTION duly made by Ms. Russell, seconded by Ms. Widener and carried to adopt a support position on Assembly Bill 2970. Ms. Porini and Mr. Whitmore abstained.

AB 1527 (Burton): Provision of Non-Audit Services. Staff recommended the Committee adopt a support position.

MOTION duly made by Mr. Eliopoulos, seconded by Ms. Widener and carried to adopt a support position on Assembly Bill 1527. Ms. Porini abstained.

VII. **INVESTMENT INSIGHT SESSION – REVISITING RETURN EXPECTATIONS** (Item 8)

Mr. Emkin discussed dynamics influencing assumptions and implications of lowered investment returns. Mr. Johnson discussed different methods of projecting returns for use in assumption models. Discussion ensued. Staff was directed to go forward with a comprehensive stochastic asset liability study for presentation to the Committee this fall.

Chairperson Lynes recessed the meeting at 2:50 a.m.
The meeting reconvened at 3:00 p.m.

VIII. **CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT** (Item 9)
Ms. Kushida Uda reviewed the written report.

IX. **REAL ESTATE – ACTIVITY STATUS REPORT** (Item 10)

Mr. DiRe and Mr. Thomas reviewed the written report. Mr. DiRe reported that Standard & Poors purchased the appraisal division of Arthur Anderson.

X. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 12)

Mr. Ailman reviewed the written report. Mr. Ailman reported the current fund value as \$99.2 billion.

Mr. Angelides arrived at the meeting at 3:15 p.m.

XI. **ALTERNATIVE INVESTMENTS – ACTIVITY STATUS REPORT** (Item 11)
Mr. Desrochers presented the written report.

- XII. **DRAFT AGENDA FOR JULY INVESTMENT COMMITTEE MEETING** (Item 13)
Mr. Ailman announced that the starting time of the meeting would be changed to 9:00 a.m. and that two Real Estate investment opportunities and two Alternative Investment investment opportunities may be added to the agenda.
- XIII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 14)
There were no statements from the public.
- XIV. **MOVE TO CLOSED SESSION**
Chairperson Lynes recessed the meeting at 3:45 p.m. and reconvened into closed session.
- XV. **ADJOURNMENT**
There being no further business to conduct, Chairperson Lynes adjourned the meeting at 6:32 p.m.

Jack Ehnes, Chief Executive Officer and Secretary to the Teachers'
Retirement Board

Gary Lynes, Chairperson